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Peru

Grain and Feed

Annual

2008

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Report Highlights:
Wheat is only a minor crop in Peru and production in MY 2008 (July/June) is forecast at 189,000 MT. Imports in MY 2008 are forecast at 1.5MMT. In an attempt to keep inflation under control the GOP eliminated the 17 percent import duty assessed on wheat. Corn production continues growing and is forecast to reach 1.6 MMT in MY 2008 (October/September). Sustained strong demand from the local poultry industry is the main drive behind this demand. Rice production for MY 2008 (January/December) is forecast at 1.7 MMT. Imports in MY 2007 were 71,301 MT. Peru has become almost self-sufficient in rice.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Lima [PE1]
[PE]

Executive Summary

Wheat production in MY 2008 (July/June) is forecast at 189,000 MT, increasing 4 percent compared to MY 2007. Crop area for MY 2008 is forecast at 142,000 hectares, a slight increase compared to the previous year. Average yields in CY 2007 were 1.23 MT per hectare, compared to 1.32 MT per hectare in the previous year. Peru produces about 1.2 MMT of flour per year, with revenues reaching $750 million. However, per capita consumption is one of the lowest in the region, at only 28 kilograms per annum. Peru's wheat imports in CY 2008 are forecast to reach 1.5 MMT. U.S. wheat exports to Peru in CY 2007 rebounded and led the market with 524,964 MT. The GOP temporarily eliminated the 17 percent import duty assessed on wheat due to high international prices.

Corn production in Peru is forescast at 1.6 MMT for MY 2008 (October/September), increasing 3 percent compared to the previous year. Harvested area in CY 2007 was 261,000 hectares and 202,000 hectares for yellow and starchy corn, respectively. Peru's 27 million chicken-per-month poultry market is the major user of yellow corn. Chicken has become a staple product in the Peruvian diet, with per capita consumption of 28 kilograms per annum. Peru imported 1.48 MMT of yellow corn in CY 2007, of which 1.086 MMT came from Argentina. U.S. corn imports were 296,142 MT. Post forecasts corn imports to fall to 1.32 MMT in MY 2008, resulting from higher local production due to better prices in the domestic market. Due to high international prices, the GOP reduced import duties for corn from 12 to 9 percent on a CIF basis. Under the TPA, the U.S. will have a duty free TRQ of 500,000 MT for U.S. corn, with annual increases of 6 percent and full duty free access in 12 years.

Rice production for CY 2008 is forecast at 1.7 MMT (milled basis). Harvested area for MY 2007 is estimated at 335,000 hectares. Rice is a staple product in the Peruvian diet, with per capita rice consumption estimated at about 55 kilograms. Rice imports into Peru in CY 2007 were 71,301 MT. Peru has become self-sufficient in rice and only imports for the high end market. Uruguay continued to be the leading exporter to the Peruvian market with 67,933 MT. Under the U.S.-Peru TPA, U.S. rice will be granted a duty free TRQ of 72,000 MT, with annual increases of 6 percent and full duty free access in 17 years.

PSD Table									
Country	Peru								
Commodity	Wheat			(1000 HA)(1000 MT)(MT/HA)					
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008
Area Harvested	128	128	128	130	130	135	0	0	142
Beginning Stocks	300	150	300	228	165	228	168	100	169
Production	175	175	175	175	170	181	0	0	189
MY Imports	1332	1550	1332	1300	1600	1390	0	0	1430
TY Imports	1332	1550	1332	1300	1600	1390	0	0	1430
TY Imp. from U.S.	157	250	157	0	500	230	0	0	300
Total Supply	1807	1875	1807	1703	1935	1799	168	100	1788
MY Exports	44	30	44	35	35	50	0	0	55
TY Exports	44	30	44	35	35	50	0	0	55
Feed Consumption	50	50	50	50	50	60	0	0	60
FSI Consumption	1485	1630	1485	1450	1750	1520	0	0	1530
Total Consumption	1535	1680	1535	1500	1800	1580	0	0	1590
Ending Stocks	228	165	228	168	100	169	0	0	143
Total Distribution	1807	1875	1807	1703	1935	1799	0	0	1788
Yield	1.367188	1.367188	1.367188	1.346154	1.307692	1.340741	0	0	1.330986

Import Trade Matrix	
Commodity	Wheat
Time Period	CY 2007
Imports for:	
U.S.	524,964
Others	
Argentina	463,486
Canada	379,843
Mexico	97,377
Ukraine	19,777
Total for Others	960,483
Others not Listed	0
Grand Total	1,485,447

Units: Metric Tons

Production

Wheat production in MY 2008 (July/June) is forecast at 189,000 MT, increasing 4 percent compared to MY 2007. Though wheat is considered only a minor crop in Peru, production is expected to increase somewhat due to strong international prices. Wheat is grown mostly in the southern highlands of the Andes under very rudimentary cultural practices. Most of the wheat produced in Peru is soft wheat and it is consumed directly in soups and purees. This type of wheat is not suitable for milling.

Crop area for MY 2008 is forecast at 142,000 hectares, a slight increase compared to the previous year. Wheat area in Peru varies significantly from year to year depending on prices, profit expectations, and conditions of alternative crops such as barley and oats. Average yields in CY 2007 were 1.23 MT per hectare, compared to 1.32 MT per hectare in the previous year. This reduction was mainly due to adverse climatic conditions.

Peru's largest wheat miller, Alicorp, has established a program to encourage producers to grow durum wheat for their pasta plant in Arequipa (about 1,000 kilometers south of Lima). Currently, they are producing around 10,000 MT but expect to reach 25,000 MT in the upcoming years. Alicorp provides improved seed and technical assistance to local producers and contracts production in advance.

Consumption

The wheat milling industry in Peru is highly concentrated. Of the 23 mills in the country, the largest one (Alicorp) accounts for about 60 percent of total wheat processed, and the top four mills are responsible for about 85 percent of the wheat milled in the country. Revenues of the milling industry are $750 million.

Bread consumption in Peru continues to be very small, with per capita consumption at 28 kilograms per annum. Most bread is purchased fresh in bakeries, and only 250 grams of bread per year are consumed in loaves, which is a two fold increase in the last seven years. With 10 kilograms per capita, Peru continues to be the second largest pasta consumer in South America. Lima accounts for half of the pasta consumption in Peru, but growth of pasta consumption in the provinces is increasing faster. Peruvian cracker and cookie consumption is still very low, around 68,000 MT per year and worth about $100 million.

Peru produces about 1.2 MMT of flour per year. Of this flour 63 percent is used in the bakery industry, 20 percent in pasta manufacturing, 12 percent in the cookies and crackers sector, and 5 percent for domestic use. About 70 percent of domestic flour is sold in traditional markets, with 20 percent sold in supermarkets and 10 percent through other distribution channels.

Post estimates that wheat consumption will gradually increase accompanying population and economic growth. Wheat consumption should grow about 4 percent per year in the upcoming three years.

Trade

Peru's wheat imports in CY 2008 are forecast to reach 1.5 MMT. U.S. wheat exports to Peru in CY 2007 rebounded and lead the market with 524,964 MT, after they had dropped by almost two thirds in the previous year. Argentina and Canada were displaced to second and third place with 463,486 MT and 379,843 MT respectively. Average price of wheat from all sources in CY 2007 was $221 MT (f.o.b. basis)

Peru’s wheat milling industry has become very sophisticated. The industry has evolved in the last 15 years from only buying HRW to importing many different types of wheat (such as soft, spring, white and DNS) for blending. The U.S. Wheat Associates has been instrumental in improving Peru’s milling standards through its marketing and trade servicing programs.

Policy

Due to increasing international wheat prices and in an effort to keep inflation under control, the GOP temporarily eliminated the 17 percent import duty assessed on wheat. The 19 percent value-added tax (VAT) remains in place. The GOP is also promoting the use of alternative products, such as potatoes and sweet potatoes, to blend it with wheat flour in order to lower production costs. According with MOA officials up to 30 percent of wheat flour could be replaced with these alternative flours. However this effort has not had an overwhelming reception by bakers who argue that only 10 percent of wheat flour could be replaced and even this low proportion would be rather expensive due to the preliminary conditioning that these flours require. Even at current high prices, wheat flour continues to be the cheapest input for making bread. Post is confident that this effort is only a political stand and will have any effect in the market.

Import duties for wheat are a highly political issue in Peru. Agricultural producers constantly urge the government to maintain high levels of protection, alleging that wheat and wheat products are substitutes for potato, Peru’s staple product. Though none of these allegations have been proven in serious studies, some politicized producers will probably keep urging the GOP to reinstate the import duty as soon as possible.

Peru is taking advantage of the tariff preferences granted by other countries in the region and is increasing exports of wheat products, especially cookies and crackers. Under the U.S.-Peru Trade Promotion Agreement, U.S. wheat will gain immediate duty free access into Peru. Since the U.S. will also grant duty free status to Peruvian wheat products, some millers have already begun developing a market for pasta and cookies in the U.S.

PSD Table									
Country	Peru								
Commodity	Corn					(1000 HA)(1000MT)(MT/HA)			
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008
Area Harvested	525	525	530	540	540	560	0	0	565
Beginning Stocks	201	116	201	271	63	262	211	43	250
Production	1400	1400	1425	1500	1550	1550	0	0	1600
MY Imports	1528	1300	1486	1400	1250	1410	0	0	1350
TY Imports	1528	1300	1486	1400	1250	1410	0	0	1350
TY Imp. from U.S.	340	500	296	0	550	350	0	0	350
Total Supply	3129	2816	3112	3171	2863	3222	211	43	3200
MY Exports	8	8	8	10	10	10	0	0	10
TY Exports	8	8	8	10	10	10	0	0	10
Feed Consumption	2600	2515	2592	2700	2580	2712	0	0	2720
FSI Consumption	250	230	250	250	230	250	0	0	260
Total Consumption	2850	2745	2842	2950	2810	2962	0	0	2980
Ending Stocks	271	63	262	211	43	250	0	0	210
Total Distribution	3129	2816	3112	3171	2863	3222	0	0	3200
Yield	2.666667	2.666667	2.688679	2.777778	2.87037	2.767857	0	0	2.831858

Import Trade Matrix	
Country	Peru
Commodity	Corn
Time Period	CY 2007
Imports for:	
U.S.	296,142
Others	
Argentina	1,086,389
Bolivia	29,265
Brazil	880
Paraguay	67,380
Total for Others	1,183,914
Others not Listed	0
Grand Total	1,480,056

Units: Metric Tons

CORN

Production

Corn production in Peru is forecast at 1.6 MMT for MY 2008 (October/September) increasing 3 percent compared to the previous year. Corn production, especially yellow corn, has been consistently increasing due to strong international prices. Average price of local corn increased almost 40 percent in CY 2007. Among the several types of corn produced in Peru, the most important varieties are starchy corn (with production estimated at 210,000 MT in MY 2007) which is used directly for human consumption, and yellow corn, with production estimated at 1.1 MMT, which is primarily used in the animal feed industry.

Harvested area in CY 2007 was 261,000 hectares and 202,000 hectares for yellow and starchy corn, respectively. Yields are expected to be around 3.9 MT per hectare for yellow corn and 1.2 MT per hectare for starchy corn. Corn is mainly grown along the Peruvian coast and in the rainforest on the eastern slopes of the Andes.

Consumption

With a per capita consumption of 28 kilograms per annum, chicken has become a staple product in the Peruvian diet. Peru's 27 million chicken-per-month poultry market is the major user of yellow corn, with corn accounting for about 68 percent of the chicken feed. Corn consumption is forecast at 2.71 MMT in CY 2007 and poultry meat remains one the cheapest source of protein in the Peruvian diet.

There are about 20 poultry operations in Peru, which control around 1,000 farms. The largest producer, San Fernando, controls about 35 percent of the market. Total market size for CY 2007 is estimated at $1.15 billion.

Informal producers (producers who are not legally established and do not pay taxes) are a major problem for the poultry sector in Peru. These producers, which account for about 25 percent of the poultry meat industry, are not able to import corn due the lack of appropriate registration with the tax authority and therefore rely solely on local corn. Informal producers are constantly undermining the industry profitability with their lower prices, which result from not paying taxes.

Trade

Peru imported 1.48 MMT of yellow corn in CY 2007, of which 1.086 MMT came from Argentina. U.S. corn imports were down to 296,142 MT from the 379,225 MT imported in the previous year. Better price from the competition and cheaper freight costs, as well as increased local supply, resulted in the U.S. loss of the market share. Feed producers and large poultry operations prefer to use Argentine or Peruvian corn over U.S. corn. They claim that Argentine and Peruvian corn is harder and comes with less broken kernels. Average price of locally produced corn was around $244 per MT in CY 2007. If U.S. corn prices remain high, it will continue losing market share to domestic and regional corn.

Post forecasts corn imports to fall to 1.32 in MY 2008, this reduction resulting from higher local production due to better prices in the domestic market. However, we expect U.S. corn exports to remain at around 350,000 MT. Post believes that alternative corn products such as DDG have an interesting potential and should be promoted in this market.

Policy

Due to high international prices the GOP reduced import duties for corn from 12 to 9 percent on a c.i.f. basis. Corn is also subject to a variable levy applied under the Price Band System. The Price Band System is a variable levy that depends on international prices, which assures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton. Currently the variable levy for corn is zero due to high international prices. Under the TPA, Peru has committed to eliminate the price band system for all U.S. products.

Under the TPA, the U.S. will have a duty free TRQ of 500,000 MT for U.S. corn, with annual increases of 6 percent and full duty free access in 12 years.

The GOP does not have any direct subsidy or assistance program to encourage corn production. However, there has been some support through rotating credit funds. The Ministry of Agriculture continues to support an agreement between corn and poultry producers to encourage corn production in the eastern region of the country. This area is excellent for corn production, but transportation infrastructure is poor and in some cases does not exist.

Corn production began increasing sharply in 1997 due to a GOP's import substitution program. This program, which granted tax benefits to livestock operations outside of Lima that used only local corn, has been successful so far. In some areas, particularly on the eastern slopes of the Andes, the few poultry producers are planting and purchasing local corn. On the coast, the third largest poultry producer in the country is purchasing only local corn, through an agreement signed with corn producers in the area. The largest poultry producer in Peru has begun producing part of the corn it demands. This program and continued high international prices will encourage domestic production and, therefore, import substitution.

PSD Table								
Country	Peru							
Commodity	Rice, Milled			(1000 HA)(1000 MT)(MT/HA)				
	2006 Revised			2007 Estimate			2008 Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2007	01/2007		01/2008	01/2008		01/2009	01/2009
Area Harvested	350	350	332	350	350	335	0	0	335
Beginning Stocks	505	459	505	475	389	570	525	339	540
Milled Production	1600	1600	1744	1700	1600	1700	0	0	1700
Rough Production	2319	2319	2528	2464	2319	2464	0	0	2464
Milling Rate (.9999)	6900	6900	6900	6900	6900	6900	0	0	6900
MY Imports	80	50	71	70	70	70	0	0	72
TY Imports	80	50	71	70	70	70	0	0	72
TY Imp. from U.S.	0	0	2	0	0	2	0	0	3
Total Supply	2185	2109	2320	2245	2059	2340	525	339	2312
MY Exports	10	20	20	20	20	20	0	0	20
TY Exports	10	20	20	20	20	20	0	0	20
Total Consumption	1700	1700	1730	1700	1700	1780	0	0	1812
Ending Stocks	475	389	570	525	339	540	0	0	480
Total Distribution	2185	2109	2320	2245	2059	2340	0	0	2312
Yield (Rough)	6.625714	6.625714	7.614458	7.04	6.625714	7.355224	0	0	7.355224

Import Trade Matrix	
Country	Peru
Commodity	Rice, Milled
Time Period	CY2007
Imports for:	
U.S.	1,563
Others	
Bolivia	846
Thailand	914
Uruguay	67,933
Total for Others	69,693
Others not Listed	45
Grand Total	71,301

Units: Metric Tons

RICE

Production

Rice production for CY 2008 is forecast at 1.7 MMT (milled basis), unchanged from the previous year. Harvested area for MY 2007 is estimated at 335,000 hectares. Rice in Peru is surface irrigated and dependent upon the supply of water draining from rivers in the Andes Mountains. Most of the rice in Peru is harvested April through July.

The government has been encouraging producers to move rice production to the eastern slopes of the Andes, due to the lack of water on the coast. This effort has been successful in increasing rice production in this area, especially in the San Martin region. However, it has failed to move rice production out of the northern coast. Coastal rice producers have no incentive for changing crops, water is almost free and returns on investment are high, particularly with current international prices.

Historical rice producing areas in Peru are Lambayeque and Piura in the northern region and Arequipa in the south. Average yields in CY 2007 were around 7 metric tons of paddy rice per hectare, but some farmers have yields as high as 14 metric tons per hectare. Since most of the production is carried out by small producers, rice quality and yields vary greatly depending on input levels, which in turn depend on prices and economic conditions.

The Inter American Development Bank has a project in the San Martin province to promote a rice intensification system (SRI). The SRI goal is to give the plant more space to develop and obtain its nutrients. This system proposes 40 cm between plants (instead of the traditional 25 cm) and recommends planting one to two seeds instead of five. This project, which started two years ago, has already increased yields from 8 to 10 MT per hectare. There are about a thousand hectares under this system currently; its goal is to raise yields to an average of 14 MT per hectare.

Consumption

Rice is a staple product in the Peruvian diet, with per capita rice consumption estimated at about 55 kilograms. Rice is traditionally sold in small markets, weighed out and bagged from 50 kilos sacks. In recent years, with the expansion of supermarket chains in Peru, several consumer habits, including the purchase of rice, have changed. There is a growing demand for prepackaged one-kilogram bags of rice. Higher quality rice, including U.S. rice, is generally marketed in this way.

Trade

Rice imports into Peru in CY 2007 were 71,301 MT, a significant increase from the 40,019 MT imported CY 2006, but far from the 450,000 MT that were imported in late 1990s. Peru has become self-sufficient in rice and only imports for the high end market. Uruguay continued to be the leading exporter to the Peruvian market with 67,933 MT. Rice exports from the U.S. were 1,563 MT. The largest rice importer, who owns the leading brand for bagged rice, has a long-term relationship with a Uruguayan rice exporter who provides good quality rice at a competitive price.

Though it is difficult to measure, Post estimates that approximately 20,000 MT of Peruvian rice was smuggled into Ecuador in 2007. A significant portion of this contraband continues on to Colombia.

Some Peruvian importers are interested in purchasing paddy rice from the U.S., which is currently banned for SPS reasons by SENASA (the Peruvian SPS authority). Peru has banned paddy rice for many years on the ground that the hulls could transmit pests that are not present in Peru. Khapra Beetle is the principal pest of concern to Peru. This is more likely to occur if the paddy rice is sold as seed rather than milled, but Peru claims it cannot lift this ban. Currently a pest risk assessment is being done which will hopefully result in elimination of the ban and additional sales of U.S. rice.

Policy

Rice imports are assessed a 9 percent import duty on c.i.f. plus a variable levy applied under the Peruvian Price Band System. The Price Band System is an import tax that depends on international prices and ensures that the import price of specific commodities, after payment of the levy, will equal a predetermined minimum import price. This tax, which is imposed on certain "sensitive" products, is expressed in dollars per metric ton. The current levy for milled rice is zero due to high international prices. Under the TPA the Price Band System will be eliminated for products from the United States. It will remain in place for products from other countries, including MERCOSUR.

Under the U.S.-Peru TPA U.S. rice will been granted a duty free TRQ of 72,000 MT, with annual increases of 6 percent and full duty free access in 17 years. Since Uruguay will not receive the same level of tariff preference for rice under the Peru-MERCOSUR trade agreement, this could be an opportunity for U.S. rice exporters to recover their market share in Peru.